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ABSTRACT

In March 1983, the California Postsecondary Education Commission recommended that the Board of Governors of the California Community Colleges authorize community college districts to levy at their discretion a fee surcharge of not more than 10% of a mandatory general student charge. The objectives of levying the surcharge would be to increase district discretion in raising revenue, to improve district equity and resource allocation, and to support high priority educational needs in the district. An analysis of the proposed fee surcharge by the Chancellor's Office suggests that: (1) the impact of the surcharge on enrollment is likely to be negligible; (2) the surcharge is not a significant revenue-raising alternative; (3) the impact on district resource allocation is uncertain; (4) the impact on district funding equity would be insignificant; (5) the surcharge could have a regressive impact, burdening low-income students; and (6) financial flexibility can be better achieved through alternatives such as increased private financial support and expanded ways of raising local tax revenues. Therefore, the Chancellor's Office concluded that the objective of improved community college resource allocation would be better met through revenue-use flexibility rather than revenue-raising flexibility, and that the surcharge should not be adopted. District enrollment and financial data are appended.
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FEE SURCHARGE

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Discussed as Agenda Item 7 at the Meeting of the Board of
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June 2-3, 1983

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JC 830 273

Board of Governors of the
California Community Colleges
June 2-3, 1983

Item 7

Title: Fee Surcharge

Staff Presentation: Chuck McIntyre, Director
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Summary

This item presents, for Board of Governors review, an analysis of the community college fee surcharge suggested by the Postsecondary Education Commission in its recent followup response to ACR 81 (1982).

The suggested fee surcharge would be permissive (districts would decide whether to levy the surcharge), and would be set at up to 10% of any general fee. Revenues would be retained and used by the levying district.

The proposed surcharge is a policy tool of little consequence and, if implemented, could produce inequitable results for individual students. Since the surcharge would be permissive, the impact of the policy on specific districts is difficult to predict.

A stated objective of the proposal is to provide community college districts with increased financial flexibility. In view of the problems with the surcharge, better alternatives for achieving this objective are:

- (a) increased private financial support from business, industry, and foundations; and
- (b) expanded ways of raising local tax revenues.

In any case, greater flexibility in the use of revenue by districts is more important than increased flexibility in raising revenue if the ultimate objective is to improve the allocation of community college resources.

Recommended Action

After reviewing the advantages and disadvantages of a permissive fee surcharge, the Board of Governors should advise the Postsecondary Education Commission that the fee is not a useful policy tool. The objective of increased district discretion in revenue-raising can be achieved more effectively by other means, such as increased support from the private sector and expanded local taxing authority.

Background

Beginning in July 1982, the Board of Governors conducted a series of public hearings and reviewed staff analyses directed to the question of tuition and general fees. Following this work in December 1982, the Board adopted a Contingency Fee Plan for submission to the Postsecondary Education Commission (CPEC) and the Legislature.

In March 1983, CPEC adopted a report to the Governor and Legislature (Student Charges, Student Financial Aid, and Access to Postsecondary Education: Options for the California Community Colleges); recommending, among other things, that

"The Board of Governors should consider and report to the Postsecondary Education Commission by June 30, 1983, the advantages and disadvantages of authorizing local community college districts to (a) levy a district general charge of up to 10 percent of the state general charge, and (b) utilize all revenues derived from such a charge within the district to meet local educational needs of high priority."

The CPEC report goes on to say:

"Allowing districts a moderate level of discretion in setting total general charge levels would probably not produce substantial inter-district differences in resources. However, before the state authorizes some local district control over general mandatory charge levels, the effects on enrollment shifts and on existing differences in support among districts should be examined carefully. Furthermore, the Board should examine the advantages and disadvantages of this and alternative proposals to enhance district discretion in accommodating different needs, costs, and levels of service."

The Chancellor's Office, in response to this proposal, stated that: "... we seriously question the recommendation which would permit local boards to modify upward the level of the student fee to a maximum of 10 percent above the state established level. This has a very real potential of exacerbating equalization efforts and, further, in a modest sense, might begin to encourage some small enrollment shifts."

This item presents, for the Board's consideration, a description of the CPEC proposal, its likely consequences, and possible alternatives.

Proposed Fee Surcharge

As suggested by CPEC, the fee surcharge would be

- (a) permissive, to be levied at the discretion of a district,
- (b) not more than 10 percent of a mandatory general student charge, and
- (c) used by the district to support high priority educational needs.

While the CPEC recommendation is not explicit, it appears that the surcharge would augment, not replace, state apportionment to the district.

The Governor has proposed a general charge of \$50 per semester for full-time students and \$30 for part-time students. If this general charge is

implemented, the maximum fee surcharge that could be imposed by a district under the CPEC proposal would be \$5 and \$3 (per semester) for full-timers and part-timers, respectively.

Rationale for Proposal

Discussion of the fee surcharge in the CPEC report (p.32) indicates that increased district discretion in raising revenue is one objective of the proposal. In addition, the reference to "...accommodating different needs, costs, and levels of service," suggests that district funding equity and improved resource allocation are also objectives of the proposal.

Analysis of Proposal

In requesting the Board to consider the surcharge, CPEC specifically asks for an examination of the effects on enrollment shifts and on differences in support among districts.

Enrollment Shifts. The possible shifting of students between districts because of the surcharge is likely to be negligible. Most students attend the community college nearest to their residence due to the cost of transportation. The added cost of transportation to another college would likely exceed the surcharge.

Staff analysis shows that for districts with large numbers of low income students a one percent increase in the college-going cost facing students could result in about a one percent decrease in district enrollment. The surcharge, if levied at its maximum, amounts to less than a two percent cost increase for the average student. Districts that would experience the greatest impact from the surcharge are likely to be those with large numbers of low income students and where colleges in neighboring districts are relatively close (i.e., an urban or suburban setting). Even so, the impact of the surcharge upon the total enrollment of such a district is not likely to be substantial, particularly if the neighboring district also levies the surcharge.

District Support Differences. There is no guarantee that those districts needing increased revenue per student would levy the surcharge. Even if the surcharge were levied in the most equalizing manner possible (an unlikely event), its impact would be of little significance due to the modest increase in expenditures to be derived by the least wealthy districts.

The maximum possible impact of the surcharge would be upon a low revenue-per ADA district that levied the full amount possible. A typical low revenue district with the average mix of full- and part-time students could raise \$7 per student or just under \$14/ADA (per year) from the surcharge if the Governor's mandated general charges were in place. The average revenue per ADA in the 12 "poorest" districts is just over \$1,700. (See Appendix. Table II). Consequently, the maximum impact of the surcharge in these "most needy" districts would be to raise their per-student expenditure capability by just seven-tenths of one percent. Only in Los Angeles, a "high revenue" district, would a full surcharge levy raise significant revenues: just under \$1 million for that district. The average-sized district would raise less than \$120,000.

Furthermore, there is evidence that the low-revenue districts which might stand to benefit from the surcharge also are characterized by substantial numbers of low income students living in the inner city. Consequently, the result of the surcharge could be to deny access to such students. This result is contrary to Board of Governors' policy and also runs counter to CPEC's recently adopted community college finance principles.

If low-revenue districts(needing to improve their educational programs) were characterized by a student enrollment with high personal income, the surcharge might be construed as a policy tool that would improve district funding equity. However, staff analysis shows that this isn't the case. (See Appendix.) Low-revenue districts are typically large and located in an urban or suburban setting. While many large urban districts report a relatively high average personal income, they typically have a substantial number of low income (often minority) individuals living in the inner city. Efforts by such low revenue districts to raise their expenditure levels through the surcharge could result, therefore, in low income individuals being charged to bring their programs to a level that is publicly-subsidized in other districts.

Providing districts with more local revenue-raising options should result in improved resource allocation. This is because high priority educational needs, in general, can be better identified locally than at the state level. In this regard, however, the surcharge is an uncertain tool. Not all districts with high unmet priorities will levy the surcharge. And unless these priorities are few in number and small in size, the levy simply doesn't produce enough revenue to be of consequence.

In summary, staff analysis of the surcharge's impact shows that there will not be substantial enrollment shifts between districts. In addition, the surcharge is not a significant revenue-raising vehicle. Further, it appears that the surcharge could have a regressive impact, whereby low income (often minority) students were paying to bring their educational program to a level that is publicly subsidized elsewhere. While the impact of the surcharge upon funding equity for specific districts is unpredictable, its magnitude would render it of little consequence. Finally, the impact of the surcharge upon those decisions which determine district resource allocation is uncertain.

Alternatives

In view of the problems with the surcharge, better alternatives for improving the revenue-raising flexibility of districts are:

- (a) increased private financial support from business, industry, and foundations; and
- (b) expanded ways of raising local tax revenues.

In any case, greater flexibility in the use of revenue by districts is more important than increased flexibility in raising revenue if an ultimate objective is to improve the allocation of community college resources.

Private Support. The Board of Governors' Long Term Finance Plan (1979) recommended that there be "...a greater contribution from the private sector resulting from increased work by colleges with business, industry, and labor unions in training individuals...." State matching incentive grants for college instruction were recommended. While this proposal has not been implemented, other efforts have moved forward at both local and state levels, resulting in a

high degree of cooperation between the colleges and industry. Among these efforts are the California Worksite Education and Training Act (CWETA) and Investment in People programs.

Expanded Local Taxing Authority. The Board's Finance Plan also called for an expansion of districts' local taxing authority: "In keeping with the justification for a significant local commitment, local districts should have the capability to authorize and manage local taxes that might be voted... specifically for community colleges."

Proposition 13 (1978) provided that special local taxes (other than on the value of property) may be imposed by two-thirds vote of the electorate. Legislation enacted in 1982 specified a procedure for local community college boards to call an election on the special tax authorized by Proposition 13. If approved by two-thirds of the voters, such a special tax could support community services; capital outlay: acquisition, construction, maintenance, and equipment; or to secure revenue bonds.

An August 1982, a State Supreme Court decision ruled that a payroll tax used by the City of San Francisco for general purposes could be authorized by a majority, rather than two-thirds, vote. The Court argued that since the tax was used for general purposes, it did not fall under the Constitutional (Proposition 13) provision governing special taxes. It is not clear that this decision would apply to community colleges since even the general purpose tax of a district could be construed as being specifically for education. This contrasts with the many more-general purposes for which a city is chartered.

A proposed funding bill for K-12 (SB 813) now before the Legislature would authorize local school boards to hold an election, proposing a tax for general operating purposes. Revenues from this tax would be limited to five percent of general district revenue and would be added to (not replace) state apportionments. A simple majority of the voters could approve this tax since, according to the bill, it would not be a special tax subject to the Constitutional provision. This proposal or a similar policy could and should be proposed for community colleges as a means to improve their revenue-raising flexibility.

Flexibility in Use of Revenue. Expanding district flexibility in raising revenues is likely to result in improved resource allocation and the ability of districts to accommodate "...different needs, costs, and levels of service." A more direct and beneficial impact on local allocation, however, can be produced by affording districts greater flexibility in the use of their revenues.

The Board's Long-Range Finance Plan, adopted, in 1979, recommended that "Community colleges need greater flexibility if they are to continue to be community-oriented, become more cost-effective (as they must with scarce funding), and set priorities effectively. This includes flexibility to allocate funds among competing local uses and to plan and manage college operations. This greater flexibility can be accomplished in part by removing many existing legal constraints on the use of college resources together with a major change in college accountability from emphasis on short term efforts to emphasis on long-term planning and results."

These recommendations have resulted in a series of efforts in which both the Education Code and Title 5 of the Administrative Code have been simplified.

In addition, work is proceeding in an attempt to improve planning and evaluation in the community colleges (see items elsewhere in this agenda).

Equity. It was noted above that the surcharge is likely to have an adverse impact upon low income students, particularly in large urban districts. In addition, the surcharge proposal would have an uncertain and, in any case, insignificant impact upon district funding equity.

If the objective is funding equity, that is, to improve the distribution of general dollars among districts based on their varying needs, a better policy tool is a mandatory (not permissive) measure that is externally (to the district) determined by the state.

Such equity measures are being proposed through current Board-sponsored finance legislation (SB 851) in which

- (a) credit and noncredit calculations for equity adjustments are separated in order to reflect programmatic differences,
- (b) low revenue (per credit ADA) districts are being increased toward the statewide average, and
- (c) a cost study is proposed to provide a basis for further needed improvements in funding equity.

These policies if enacted, will have a significant and predictable impact on district funding equity.

APPENDIX

An examination of the district data in Tables I, II, and III reveals that revenue per ADA is inversely related to the size of district. That is, districts which have large enrollments report low revenues per ADA. This relationship describes the scale economies inherent in the educational process. In addition, districts reporting low revenues per ADA are characterized by a high average personal income.

The modest strength of these relationships is revealed in Table III. These correlations show that revenue per ADA is inversely related to per capita income ($r = -0.238$) and district enrollment (-0.252). Per capita income is positively related to the size of district enrollments (0.388): large districts are located in large metropolitan areas with high income populations. The percentage of minority students in a district is positively related to district enrollments (0.222) since minorities tend to concentrate in large urban districts.

This cursory analysis ignores two significant problems inherent in these data. First, until 1980 Census Data can be disaggregated, personal income data for districts must be proxied by use of county data. For example, all districts in Los Angeles County must be characterized by the same personal income figure, an approach that is misleading. Second, the use of average personal income ignores important facts about the distribution of income. The large urban district with a relatively high average personal income may have a substantial number of low income (perhaps sub-poverty level) individuals living in the inner city.

Efforts by low revenue districts to raise their expenditure levels through the surcharge could result, therefore, in low income individuals being charged to bring their programs to a level that is subsidized in other districts.

TABLE I

DISTRICT	GENERAL REVENUE PER ADA 1982-83	RANK	PER CAPITA INCOME FROM 1980 CENSUS	RANK	% NON-WHITE IN DISTRICT	RANK	ENROLLMENT FALL 1982	RANK
Allan Hancock	1,825	56	8,463	18	23.4	41	10,321	39
Antelope Valley	1,679	68	8,380	19-31	78.0	2	7,290	54
Barstow	3,242	3	7,163	51-54	N/A	N/A	1,705	67
Butte	1,769	60	6,665	63	N/A	N/A	8,994	43
Cabrillo	1,880	47	8,275	32	16.1	49	11,458	38
Cerritos	1,765	63	8,380	19-31	34.3	17	24,170	18
Chaffey	1,998	28	7,163	51-54	28.5	27-28	13,850	35
Citrus	1,762	64	8,380	19-31	27.2	31-32	10,052	40
Coachella Valley	2,394	7	7,530	45-48	24.7	37	7,798	52
Coast	1,930	38	9,613	4-7	14.9	52	62,673	4
Compton	2,248	13	8,380	19-31	94.1	1	4,564	59
Contra Costa	1,984	31	9,868	3	23.0	42	33,975	9
El Camino	1,974	32	8,380	19-31	N/A	N/A	29,597	13
Foothill	1,866	50	9,573	8-11	10.6	61	37,047	8
Fremont-Newark	1,995	29	8,602	14-16	28.5	27-28	8,292	50
Gavilan	2,046	26	9,578	8-11	33.1	21	3,182	63
Glendale	1,726	65	8,380	19-31	43.9	9	16,357	32
Grossmont	1,950	35	8,001	38-42	15.7	50	18,193	29
Hartnell	2,236	14	7,582	43-44	38.8	12	7,052	55
Imperial	2,110	22	5,828	69	69.4	3	4,678	58
Kern	2,174	19	7,030	57-58	17.1	33	18,474	27
Lake Tahoe	2,747	5	8,003	37	8.7	65	1,491	68
Lassen	2,202	16	6,674	62	15.3	51	2,605	65
Long Beach	1,843	51	8,380	19-31	31.9	24	25,303	16
Los Angeles	2,285	12	8,380	19-31	54.4	6	135,529	1
Los Rios	1,828	54-55	8,009	36	27.4	29	46,482	6
Marin	2,064	24	12,595	1	7.2	67	17,000	31
Mendocino-Lake	2,786	4	6,608	64	10.5	62	3,564	61
Merced	1,878	48	6,440	66	33.4	18	8,368	49
Mira Costa	2,357	9	8,001	38-42	24.1	39	8,515	46
Monterey	1,838	53	7,582	43-44	26.4	34	8,405	48
Mt. San Antonio	1,839	52	8,380	19-31	30.1	25	28,453	14
Mt. San Jacinto	2,309	11	7,530	45-48	17.1	28.5	3,678	60
Napa	1,808	58	8,782	13	14.2	55-56	8,973	44
North Orange	1,921	39	9,613	4-7	23.5	40	66,611	3
Palomar	1,811	57	8,001	38-42	19.8	47	18,881	25
Palo Verde	2,521	6	7,530	45-48	40.0	11	763	70
Pasadena	1,939	37	8,380	19-31	33.2	20	22,588	20
Peralta	1,941	36	8,602	14-16	47.0	8	38,993	7
Rancho Santiago	1,915	41-42	9,613	4-7	43.3	10	32,808	10
Redwoods	2,138	21	6,717	61	11.8	58	8,026	51
Rio Hondo	1,881	46	8,380	19-31	55.6	5	11,850	37

DISTRICT	GENERAL REVENUE PER ADA 1982-83	RANK	PER CAPITA INCOME FROM 1980 CENSUS	RANK	% NON-WHITE IN DISTRICT	RANK	ENROLLMENT FALL 1982	RANK
Riverside	1,775	59	7,530	45-48	24.5	38	15,696	33
Saddleback	2,197	17	9,613	4-7	14.0	57	24,560	17
San Bernardino	1,915	41-42	7,163	51-54	32.5	22	19,720	24
San Diego	1,629	70	8,001	38-42	34.4	16	62,239	5
San Francisco	1,670	69	9,319	12	59.1	4	70,104	2
San Joaquin	1,916	40	7,123	56	32.3	23	17,173	30
San Jose	2,060	25	9,578	8-11	24.8	36	21,787	22
San Luis Obispo	1,906	44	7,224	50	9.2	63	5,893	56
San Mateo	2,089	23	10,725	2	25.2	35	30,518	12
Santa Barbara	1,767	61	8,463	18	20.2	46.0	18,752	26
Santa Clarita	2,368	8	8,380	19-31	11.6	59.0	3,487	62
Santa Monica	1,710	66	8,380	19-31	27.2	31-32	23,001	19
Sequoias	1,962	34	6,112	68	27.3	30	7,326	53
Shasta-Tehama-Trinity	1,985	30	6,427	67	8.1	66	8,948	45
Sierra	1,913	43	8,219	33	9.1	64	10,006	41
Siskiyou	2,167	20	6,561	65	11.4	60	2,862	64
Solano	1,828	54-55	7,477	49	37.0	13	9,799	42
Sonoma	1,766	62	8,190	34	14.4	53	22,313	21
South County	2,012	27	8,602	14-16	33.3	19	21,728	23
Southwestern	1,706	67	8,001	38-42	53.2	7	12,333	36
State Center	1,969	33	7,025	59-60	35.1	14-15	18,179	28
Ventura	1,871	49	8,086	35	29.1	26	30,729	11
Victor Valley	2,337	10	7,163	51-54	21.8	44	5,012	57
West Hills	3,640	2	7,025	59-60	35.1	14-15	2,152	66
West Kern	5,072	1	7,030	57-58	14.2	55-56	959	69
West Valley	1,885	45	9,578	8-11	21.2	45	27,617	15
Yosemite	2,180	18	7,135	55	14.3	54	15,018	34
Yuba	2,212	15	5,565	70	22.2	43	8,430	47
STATEWIDE AVERAGE	1,949		8,303		27.6		1,354,949	

TABLE II

	GENERAL REVENUE PER ADA 1982-83	PER CAPITA INCOME FROM 1980 CENSUS	% NON-WHITE IN DISTRICT	ENROLLMENT FALL 1982
Six Highest Revenue- Per-ADA Districts	3,334	7,227	21.7	1,772
Next Six Highest Revenue Districts	2,336	7,831	32.2	5,510
Next to Six Lowest Revenue Districts	1,767	7,934	24.1	16,663
Six Lowest Revenue Districts	1,686	8,410	39.3	31,877

TABLE III

CORRELATION MATRIX
 REVENUE PER ADA
 CORRELATED WITH PER CAPITA INCOME,
 PERCENT MINORITY IN DISTRICT,
 AND DISTRICT ENROLLMENT

(CORRELATION COEFFICIENTS
 PROB GREATER THAN "R" UNDER $H_0: \rho = 0$
 NUMBER OF OBSERVATIONS)

	REVENUE PER ADA	PER CAPITA INCOME	PERCENT MINORITY IN DISTRICT	DISTRICT ENROLLMENT
REVENUE PER ADA	1.00000 0.0000 70	-0.23820 0.0471 70	-0.12076 0.3303 67	-0.25219 0.0352 70
PER CAPITA INCOME	-0.23820 0.0471 70	1.00000 0.0000 70	-0.03271 0.7927 67	0.38770 0.0009 70
PERCENT MINORITY IN DISTRICT	-0.12076 0.3303 67	-0.03271 0.7927 67	1.00000 0.0000 67	0.22217 0.0708 67
DISTRICT ENROLLMENT	-0.25219 0.0352 70	0.38770 0.0009 70	0.22217 0.0708 67	1.00000 0.0000 70